

California's Economic Resurgence under Governor Schwarzenegger

A Devastating Recession

- The combination of high business costs and unnecessarily burdensome regulations, which escalated during the Davis Administration, stunted our state's economic competitiveness and left California particularly vulnerable to the economic recession.
- In 2003, Workers' Compensation costs were the primary concern among California business leaders.
 - Other concerns included regulatory costs, energy costs and volatility, and state budget problems (and the specter of higher taxes to reduce the deficit).
- Despite adding almost a million residents, California's employment slipped by over 360,000 from January 2001 to July 2003.¹
- California's unemployment rate grew by almost 50% over this period.

Governor Schwarzenegger's Commitment to Spur Economic Growth

- Upon election, Governor Schwarzenegger committed to improving the jobs creation climate for California's businesses.
- The Governor spearheaded historic Workers' Compensation reforms, reformed, eliminated, and prevented flawed legislation, and directed the state to streamline and simplify regulatory processes.
- The Governor eliminated the Gray Davis car tax – returning over \$4 billion to California's citizens and businesses each year.
- Governor Schwarzenegger has vetoed over a dozen “job-killer” bills advanced by the Legislature over the past two years.
- The Governor reduced spending growth to help cut California's budget deficit from almost \$20 billion to under \$5 billion – improving the state's bond rating and restoring integrity to the budget without raising taxes.
- The Governor implemented programs to spur business growth in high-need communities, restored state tourism marketing funds, and promoted California's businesses and tourist destinations in trade shows around the world.

California's Economic Resurgence

- California has added almost 580,000 jobs since Governor Schwarzenegger took office – bringing statewide employment to an all-time high of almost 15 million.
- California's unemployment rate has fallen to 5.0%.
- The 6.9% unemployment rate in August 2003 almost over 40% higher than the 5.0% unemployment rate in February 2006.

Sustainable Growth

- State and regional forecasts predict that California's economy will grow at a healthy pace for the foreseeable future.
- Recent surveys by the Bay Area Council and Silicon Valley Group suggest improving consumer confidence and business plans to increase hiring in 2006.

¹ Note – all job figures based upon Employer Payroll Survey

- Forecasts by the Southern California Association of Governments and the Los Angeles Economic Development Corporation suggest regional job growth will strengthen significantly in 2006.
- A Milken Institute report found California to be home to 11 of the top 50 major metropolitan economic hotbeds in the country. The survey highlighted particularly strong growth in the Central Valley and Inland Empire.
- This compares favorably with conditions before the Governor took office.
 - Almost 20% of California businesses were planning to expand and/or relocate outside of the state to relieve cost and regulatory pressures, according to a 2003 survey of business leaders by the California Chamber of Commerce.
 - The survey also found that just 14% of business leaders believed that the state was heading in the right direction.

California's Economic Resurgence - Report

No state was hit harder by the technology recession than California – in part because of the toll the recession took on our powerful internet economy, and in part because the combination of high business costs and regulations had stunted our state's economic competitiveness.

The results of these conditions included:

- California's economy lost over 360,000 jobs between January 2001 and July 2003 – despite adding almost one million residents.
 - This was the state's largest employment drop since August 1993.
- The statewide unemployment rate rose almost 50% to 6.9%.
- The combination of reduced capital gains taxes and significant spending increases agreed to by then-Governor Davis created an unprecedented operational deficit of almost \$20 billion in our state budget.
- This deficit threatened the budget for education and social services and forced Legislators to issue long-term debt to fund annual spending – a dangerous practice that resulted in lower bond ratings and higher borrowing costs for the state.

Under Governor Schwarzenegger's pro-growth policies, California's economy has recovered.

- The state has added almost 580,000 jobs since November 2003.
 - According to seasonally adjusted payroll employment figures from the California Employment Development Department.
- California's employment is now at an all-time high of almost 15 million.
- Unemployment has fallen to 5.0%, and total unemployment has fallen below 900,000.
 - California's unemployment rate was 38% higher in August 2003 than it is today (6.9% vs. 5.0%).
 - Nationally, unemployment was just 27% higher in August '03 than today (6.1% vs. 4.8%).
- At the same time, California's personal income is growing at a 6% annual rate - faster than population growth or inflation growth and over 30% faster than when the Governor was elected.
 - Higher personal incomes give Californians a greater ability to save for college, a home, or retirement – and bolster spending to support our businesses and create jobs.

Governor Schwarzenegger's Pro-Growth Policy Commitment

This economic resurgence has not occurred by accident, but through Governor Schwarzenegger's consistent efforts to improve business conditions and bring jobs back to the state. The Governor knew that our economic recovery depended on reducing costs and red tape for our businesses, a fiscally sensible budget, and lower taxes to increase consumer spending and business investment.

Worker's Compensation

- The Governor committed to reforming worker's compensation. Worker's comp costs rose by over 300% from 1997 - 2003, taking employer premiums to a record 6.35% of payroll.
- A 2003 survey of business leaders by the California Chamber of Commerce found Workers' Compensation to be the state's biggest area of concern.
- The Governor led a bi-partisan effort to reform worker compensation costs, driving overwhelming passage of worker's compensation reform, SB 889, in April 2004 - which reduced worker's comp fraud and provided effective and punctual treatment to help injured workers recover and return to work.
- Since then, worker's comp premiums have fallen by almost 50% since their 2003 peaks – and The California Workers' Compensation Insurance Rating Bureau reports that costs are continuing to decrease.
 - The League of California Cities reports that total workers' compensation costs for cities have decreased 17%
- Governor Schwarzenegger's Administration continues to push the insurance industry to pass additional savings to California's employers while working to ensure these reforms have no negative impacts on California's injured workers.

Regulation and Legislation

- The Governor has committed to providing California's businesses with a stable and sensible regulatory environment.
- Governor Schwarzenegger has vetoed over a dozen "job-killer" bills advanced by the Legislature over the past two years, bills would have exposed businesses to excessive litigation, allowed unwarranted audits, and increased compliance and employment costs for California's companies.
- The Governor has also eliminated or reformed flawed legislation inflicting additional regulations and frivolous lawsuits on California businesses.
 - The Governor drove reform of California's "Sue Your Boss Law," promoting fair business practices and stopping shakedown lawsuits on small businesses that were costing California jobs.
- Meanwhile, under the Governor's direction, the California Employment and Labor Department has made unprecedented strides in streamlining forms and applications for businesses and making compliance documents available on-line.

Budget and Taxes

- The Governor eliminated Gray Davis' constitutionally questionable tax increase on vehicles – providing citizens and businesses with an extra \$4 billion each year – and has stifled Legislative attempts to raise taxes without voter approval.

- At the same time, the Governor has brought fiscal sense back to Sacramento, drastically reducing the state's operational deficit, while increasing education spending by over \$7 billion over the last two years.
 - When the Governor took office in November 2003, he commissioned an independent audit of state finances – which that the state's operating deficit would reach \$16.7 billion in 2006-2007.
 - The Governor's January budget proposal includes an operating deficit of \$4.7 billion (when accounting for prepayments of state debt).
 - The latest forecast from the LAO estimates that the Governor's budget proposal would incur a \$2.4 billion operating deficit in 2006-2007 – over 85% less than what was predicted in November 2003.
- The state's improved budget picture has enhanced our bond ratings with notable financial institutions – reducing long-term financing costs for the construction of schools, levees, roads, and other critical infrastructure.
 - From December 2003 to today, the state's bond rating has improved by at least two levels among Standard & Poor's (BBB – A), Fitch (BBB – A), and Moody's (Baaa1 – A2).
 - If California was business, the state's bond ratings when the Governor took office would have suggested the potential for bankruptcy in the near future – our bonds were only slightly above junk-bond status.

Promoting our Businesses

- The Governor has successfully promoted our state around the globe – including hosting trade shows with our growing economic partners in Asia – and encouraged people to visit, invest, build and grow their businesses in California.
- The Governor also led an advertising campaign to attract businesses to – and retain businesses in – California by showing that the state was committed to improving the jobs climate and addressing business concerns.
- The Governor restored \$7.3 million in marketing funds to the California Travel and Tourism Commission to promote California as a premier travel destination.
- The Governor created the California Partnership for the San Joaquin Valley – a model for effective collaboration between state and local governments to improve the economy and enhance the quality of life by addressing unemployment, air quality and infrastructure improvements.
- The Governor designated new Enterprise Zones in Modesto, Brawley and Barstow using special state and local incentives to promote business investment and job creation – the first new Enterprise Zones since 1998.
 - By encouraging entrepreneurship and employer growth, the program strives to create and sustain economic expansion in local communities most in need.

California Remains the Centerpiece of the U.S. Economy

Job Growth

- According to the U.S. Bureau of Labor Statistics, California's seasonally adjusted employment increased by almost 580,000 from November 2003 to February 2006, more than New York and Texas combined and second to Florida among all states.
- Recent reports from the Silicon Valley Group, the Bay Area Council, and the Los Angeles Economic Development Corporation all suggest that job growth will increase in 2006 and 2007.

Unemployment Rate

- According to the U.S. Bureau of Labor Statistics, California's unemployment rate fell from 6.9% in August 2003 to 5.0% in February 2006 – a drop of almost 28%.
- California's unemployment rate fell 11% more than New York's unemployment rate and almost 25% more than Texas' unemployment rate.

Total Employment

- The Bureau of Labor Statistics reports that, as of January 2006, California remains the country's largest source of jobs – by far. California non-farm payroll was 14.94 million - almost twice as many jobs as Florida's, over 50% more than Texas, and almost 75% more than New York.
- California also ranks first in the nation in the number of jobs provided by foreign-based companies, or "insourced" jobs, according to a December 2005 study by the Organization for International Investment.

Gross State Product

- The U.S. Bureau of Economic Analysis reported in October that California's total Gross State Product of \$1.55 trillion in 2004 represented over 13% of the total U.S. economy.
 - As a stand-alone nation, California would have the eighth-largest economy in the world, according to the Department of Finance – trailing only the U.S., Japan, Germany, the U.K., France, Italy, and China.
- California's economy is greater than the economies of Florida and Texas combined.
- California's economy grew by almost \$250 billion between 2001 and 2004, significantly more than economic growth in Texas (\$130 billion), New York (\$100 billion), or Florida (\$100 billion).

Recent Reports Hold More Positive News for California's Economy

Several recent reports have given further evidence of California's economic resurgence and suggest that the economy should be even stronger in 2006. Below, OPR has provided a brief overview of these reports and Governor Schwarzenegger's pro-growth policies.

Milken Institute Finds California Cities among the Best for Creating Jobs in 2005

The Milken Institute's annual index of how well American cities create and sustain jobs found the Riverside-San Bernardino metro area to be the nation's 10th-best economic hotbed in 2005. Overall, California had 3 of the top 20 cities and 11 of the top 50 cities. Cities were measured on job growth, salary growth, and high-tech economy growth.

- Riverside ranked 5th in five-year job growth and 4th in five-year salary growth.
- Santa-Barbara ranked 16th overall (53rd in 2004), and received high-marks for high-tech.
- Santa-Ana / Anaheim ranked 17th (35th in 2004), and was 10th in one-year salary growth.
- San Diego, Bakersfield, Stockton, Sacramento, Ventura, Fresno, Vallejo, and Modesto were also among the top 50 metro areas in the nation.
 - Modesto was 15th in 5-year salary growth and 6th in high-tech GDP growth.
 - Vallejo ranked 12th in 5-year job growth, 5th in 5-year salary growth, and 7th in five-year high-tech GDP growth.
 - Ventura was 7th in 5-year salary growth and 8th in one-year salary growth.
 - Stockton ranked 13th in 5-year job growth and 11th in 5-year salary growth.
 - San Diego ranked 9th in 5-year salary growth, while Sacramento ranked 10th.

Bay Area Council (BAC) Surveys find Rising Business and Consumer Confidence

In the past month, the BAC has released separate surveys detailing executive and resident opinions on the economy – both suggest a bright job climate for the region in 2006.

- The BAC's overall executive confidence level has risen from 48 (out of 100) in summer '03 to 61 now – an increase of over 25%.
- 56% of executives polled expect the local economy to improve in the next six months while just 9% predicted that conditions would worsen.
- 58% of executives believe the economy is stronger today than it was 6 months ago and only 9% believe it is worse - tied for the highest numbers in the survey's 5-year history.
- 42% of executives expect to increase workforce over the next 6 months - this is easily the highest number in the survey's history (and compared to just 10% in July'03).
- 64% of Bay Area residents polled believed that area economic conditions improved or remained steady over the past year – the highest level since 2001, while 75% of respondents considered their own financial conditions improved or remained steady over the past year.
- An impressive 90% of residents expected that their personal finances would improve or remain stable in 2006, and 77% of respondents believed that the economy would strengthen or continue at the same pace over the next year.
- Residents believing that the Bay Area was enjoying “good” economic conditions outnumbered those who perceived “bad” conditions for the first time since 2001. The percentage of residents perceiving “good” conditions is up 300% since 2004.

Recent Reports also held Positive News for the Bay Area, Sacramento, Fresno, and LA

- The Silicon Valley Leadership Group's 2006 poll of executives found that 55% of respondents had increased workforce in 2005 (up from 41% in 2004), while just 13% cut jobs (down from 24% in 2004).
 - The San Francisco Chronicle quoted Carl Guardino, CEO of the Silicon Valley Leadership Group, as saying: "If there was a giant sucking sound a few years ago, the sound is now a collective sigh of relief."
 - Silicon Valley CEOs gave high praise to the Governor, with over 50% approving of his policies to improve the business climate and just 11% disapproving.
- Los Angeles County's economy will show its strongest growth in five years during 2006, according to a forecast being released February 8, 2006 by the Los Angeles County Economic Development Corp.
- The Southern California Association of Governments estimates that regional job growth will increase by 40% in 2006 and by another 25% in 2007.
- A report by the Sacramento Bee on February 8, 2006, found that Sacramento added about 1,500 manufacturing jobs in 2005, bringing total employment to almost 50,000.
 - Businesses are attracted to the region because of a skilled labor force, access to transportation networks, and reasonable land values.
 - Sacramento economic experts are optimistic that regional manufacturing is well-diversified and will continue to grow even if construction slows.
- The Fresno Regional Jobs Initiative (RJI) has reported that its efforts have increased area job growth by almost 9,000 above expected levels over the past two years.
 - Job growth was especially strong in construction, manufacturing, and information processing.
 - The Fresno ABC affiliate quoted RJI's Ashley Swearenginas: "For the first time in 20 years, Fresno County's unemployment has dropped below double digits."
- Fresno's economy is also benefiting from the increasing popularity and presence of trade schools in the region, including The Fresno Institute of Technology, Maric College, Quality College, San Joaquin Valley College, and others.
- The Fresno Bee reported that Tim Stearns, president of the Central Valley Business Incubator and director of the Lyles Center for Innovation and Entrepreneurship at California State University, Fresno, said that "These schools offer some excellent ways to build skills that can lead to excellent jobs that are valued in the local economy."

Regional Recoveries in California

Job Data from the California Labor Market Information Division – Not Seasonally Adjusted.

Job Improvement in Areas on the Governor's Schedule for Economy Week

Riverside

- From November 2003 to November 2005, the Riverside-San Bernardino area increased employment by more than 10%, adding over 113,000 jobs – making it the fastest growing economic center in the state.
- The Milken Institute's annual index of how well American cities create and sustain jobs found the Riverside-San Bernardino metro area to be the nation's 10th-best economic hotbed in 2005. The area ranked 5th in five-year job growth and 4th in five-year salary growth.
- The January 2006 unemployment rate is 4.6% in Riverside and 4.7% in San Bernardino.

San Diego

- From January 2004 to January 2006, the San Diego-San Marcos Metropolitan area added over 50,000 jobs – a 4.1% employment increase.
- San Diego was among the nation's top 50 job-creating cities in 2005 according to the Milken Institute, and ranked 9th in 5-year job growth.
- As of January 2006, San Diego County's unemployment rate has fallen to 4.1%.

San Jose / Bay Area

- The Oakland Metropolitan area added over 36,000 jobs from January 2004 through January 2006. Job Growth in both the San Francisco and San Jose regions was also positive.
- The combined unemployment rate for San Francisco, Alameda, and Santa Clara counties is under 4.9% as of January 2006.
- The 2006 Bay Area Council survey of local executives found that the overall executive confidence level has risen from 48 (out of 100) in summer '03 to 61 now – an increase of over 25%.
- 56% of executives polled expect the local economy to improve in the next six months while just 9% predicted that conditions would worsen.
- 58% of executives believe the economy is stronger today than it was 6 months ago and only 9% believe it is worse - tied for the highest numbers in the survey's 5-year history.
- 42% of executives expect to increase workforce over the next 6 months - this is easily the highest number in the survey's history (and compared to just 10% in July'03).
- The Silicon Valley Leadership Group's 2006 poll of executives found that 55% of respondents had increased workforce in 2005 (up from 41% in 2004), while just 13% cut jobs (down from 24% in 2004).

Bakersfield

- Between January 2004 and January 2006, the Bakersfield metropolitan area increased employment by 8.5% - adding almost 18,000 jobs.
- Bakersfield was listed in the Milken Institute's report on the top 50 metropolitan areas in the nation for creating high-quality jobs in 2005.

Los Angeles

- The Los Angeles metropolitan area added almost 70,000 jobs between November 2003 and November 2005.

- LA county unemployment of 5.5% in January 2006 is down from an unemployment rate of 7.8% in July 2003 – a 42% decline.
- Los Angeles County's economy will show its strongest growth in five years during 2006, according to a forecast being released February 8, 2006 by the Los Angeles County Economic Development Corp.
- The Santa Ana-Anaheim-Irvine region added over 60,000 jobs from January 2004 through January 2006, increasing employment by over 4%.
- Santa-Ana / Anaheim ranked 17th on the Milken list of top economic centers nationwide (up from 35th in 2004), and was 10th in one-year salary growth.
- The Southern California Association of Governments estimates that regional job growth will increase by 40% in 2006 and by another 25% in 2007.
- January 2006 unemployment for Orange County was just 3.6%

Other Regional Facts

- From January 2004 to January 2006, the Sacramento region added almost 46,000 jobs, growing employment by 5.4% and cutting the January 2006 unemployment rate to 4.8%.
- Sacramento ranked among Milken Institute's top 50 economic centers in 2005.
- A report by the Sacramento Bee on February 8, 2006 found that Sacramento added about 1,500 manufacturing jobs in 2005, bringing total employment to almost 50,000.
 - a. Businesses are attracted to the region because of a skilled labor force, access to transportation networks, and reasonable land values.
 - b. Sacramento economic experts are optimistic that regional manufacturing is well-diversified and will continue to grow even if construction slows.
- Fresno added over 12,000 jobs from January 2004 to January 2006, growing employment by 4.4%.
- The Fresno Regional Jobs Initiative (RJI) has reported that its efforts have increased area job growth by 9,000 above expectations in the past two years.
 - a. Job growth was especially strong in construction, manufacturing, and information processing.
- Fresno's economy is also benefiting from the increasing popularity and presence of trade schools in the region, including The Fresno Institute of Technology, Maric College, Quality College, San Joaquin Valley College, and others.
- Stockton added over 11,000 jobs from January 2004 through January 2006, increasing employment by almost 6%.

The Milken Institute ranked Stockton 13th nationwide in 5-year job growth and 11th in 5-year salary growth – and among the top 50 job markets overall.